Weekly Update
Raging Bull: Equity Market Sets Record
August 24, 2018

BPU INVESTMENT MANAGEMENT INC.

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The Economy

- The S&P 500 Index, the broadest measure of the U.S. equity market, hit a record high, making the current bull market the longest on record based on popular statistics. Favorable performance has been bolstered by strong earnings reports and a strengthening economy, eclipsing recent trade riffs and political controversy, and the S&P 500 continues to outpace global markets. Analysts remained optimistic on prospects for future U.S. economic growth as there are no clear signs that the U.S. economy is overheating, and interest rates remain in check.
- Minutes from the latest Federal Open Market Committee (FOMC) meeting signal the central bank is likely to raise interest rates in September. However, the FOMC expressed concern over trade disputes and the adverse impact it may have on disrupting economic growth. Additionally, officials discussed refraining from using language that describes Fed policy as accommodative but ultimately retained that language in their post-meeting statement.
- A preliminary reading of the purchasing managers' index pointed to decelerating growth in August. Analysts believe the slower-than-expected growth reflects moderation in employment and new orders. The report also pointed to swelling cost pressure, which supports the case for additional interest-rate hikes this year.
- Existing-home sales slid by 0.7% in July to an annualized rate of 5.34 million, as climbing prices and decreasing supply continue to sideline potential homeowners. New-home sales fell by 1.7% to an annualized rate of 627,000 during the month. Both reports missed expectations and suggested that the trend higher in mortgage rates could continue to provide a headwind to buyers. However, supply improved during the month which gives buyers more options and is widely considered a boon for new sales in coming months.
- Mortgage-purchase applications advanced by 3% in the week ending August 17, posting the first increase in six weeks. Refinancing activity (which can be sensitive to even small rate changes) swelled by 6%. Economists believe that underlying improvement in bond markets and steady interest rates have encouraged the recent rebound in application volume.
- Initial jobless claims dropped by 2,000 to 210,000 in the week ending August 18. The more stable four-week moving average dipped by 1,750 to 213,750. Continuing claims contracted by 2,000 to 1.73 million in the week ending August 11, lingering near a historic low.
- Durable-goods orders fell by a more-than expected 1.7% in July, mainly on a drop in transportation equipment. However, growth in core capital goods, which is used to calculate equipment spending in gross domestic product (GDP), suggested a possible strengthening of economic momentum.
- Japan's All Industry Index, an approximation for GDP growth as measured by industrial and service output, diminished by 0.8% in June. Weakness was broad-based; however, industrial production and construction activity primarily dragged the index down.

U.S. Economic Calendar

- August 28: International Trade, Consumer Confidence
- August 29: Mortgage Applications, Corporate Profits, GDP
- August 30: Jobless Claims

Stocks

- Global equity markets increased this week. Emerging markets fared better than developing markets.
- U.S. equity sector performance was mostly positive this week. Energy and consumer discretionary led, while consumer staples and utilities lagged. Growth stocks outgained value stocks; small-cap stocks beat large-cap stocks.

Bonds

- Global bond markets were mostly positive this week. Investment-grade corporate bonds outperformed, followed by global government bonds; high-yield bonds underperformed.
- The 10-year Treasury yield narrowed to 2.82%, further flattening the yield curve and quickly approaching inversion. The spread between the 2-year note and 10-year note reached its tightest point since 2007.

The Numbers as of August 24, 2018	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	0.7%	0.7%	9.1%	516.8
MSCI EAFE ($)	1.0%	-5.0%	1.4%	1947.3
MSCI Emerging Mkts ($)	2.5%	-9.5%	-3.2%	1048.2
US & Canadian Equities				
Dow Jones Industrials ($)	0.5%	4.3%	18.4%	25790.4
S&P 500 ($)	0.9%	7.5%	17.9%	2874.7
NASDAQ ($)	1.7%	15.1%	26.7%	7946.0
S&P/ TSX Composite (C$)	0.2%	0.9%	8.5%	16352.0
UK & European Equities				
FTSE All-Share (£)	0.4%	-1.2%	2.8%	4170.9
MSCI Europe ex UK (€)	1.2%	-1.2%	2.2%	1329.7
Asian Equities				
Topix (¥)	0.7%	-6.0%	7.3%	1709.2
Hong Kong Hang Seng ($)	1.7%	-7.5%	0.6%	27671.9
MSCI Asia Pac. Ex-Japan ($)	1.5%	-7.0%	-0.1%	529.6
Latin American Equities				
MSCI EMF Latin America ($)	-0.8%	-12.3%	-14.2%	2480.7
Mexican Bolsa (peso)	2.8%	0.6%	-3.6%	49630.9
Brazilian Bovespa (real)	0.4%	-0.1%	7.3%	76352.3
Commodities ($)				
West Texas Intermediate Spot	5.9%	15.6%	47.8%	69.8
Gold Spot Price	2.4%	-7.7%	-6.4%	1205.6
Global Bond Indices ($)				
Barclays Global Aggregate ($)	0.4%	-1.6%	-1.1%	476.8
JPMorgan Emerging Mkt Bond	0.5%	-4.3%	-3.3%	772.8
10-Year Yield Change (basis points*)				
US Treasury	-5	41	62	2.81%
UK Gilt	4	9	23	1.28%
German Bund	4	-8	-3	0.34%
Japan Govt Bond	0	5	7	0.10%
Canada Govt Bond	0	22	38	2.27%
Currency Returns**				
US$ per euro	1.6%	-3.2%	-1.5%	1.162
Yen per US$	0.6%	-1.3%	1.5%	111.18
US$ per £	0.8%	-4.9%	0.4%	1.285
C$ per US$	-0.3%	3.6%	4.0%	1.303

Source: Bloomberg. Equity-index returns are price only, others are total return. *100 basis points = 1 percentage point. **Increases in U.S. dollars (USD) per euro or pound indicate a decline in the value of the USD; increases in yen or Canadian dollars per USD indicate an increase in the value of the USD.

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